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CORRECTIONS

Vol 14, No 12, December 1984
Page 437, Column 1
Line 20 should read:
date for its implementation. In December 1982 the

Vol 15, No 1, January 1985
Page 28
First entry under 'Government and Administration' heading should read:
The Monarchy.' COI, No 68/84. (French, Portuguese and Spanish versions in preparation.)

The Royal Yacht and the Queen's Flight. COI, No 112/84.

EXTERNAL AFFAIRS AND DEFENCE

Gibraltar

Talks about Gibraltar between Britain's Foreign and Commonwealth Secretary, Sir Geoffrey Howe, and the Spanish Foreign Minister, Señor Fernando Morán, took place in Geneva on 5 February. On the same day the Spanish Government reopened its border gates on the frontier between Spain and Gibraltar.

Reporting to the House of Commons on 6 February (*Hansard*, Vol 72, No 55, cols 937-44), Sir Geoffrey said that the meeting had marked the start of the restoration, after 15 years, of direct communications and the free movement of people, vehicles and goods between Gibraltar and Spain. As envisaged by the Lisbon statement of April 1980 (see pp 110-11, 1980, and 435-7, 1984), negotiations had begun aimed at overcoming all of the differences between Spain and Britain on Gibraltar and at promoting co-operation between Gibraltar and Spain on a wide range of matters. In addition, Spaniards in Gibraltar and Gibraltarians in Spain would enjoy European Community rights in advance of Spanish accession to the Community. Spanish, British and Gibraltarian officials would meet to discuss specific areas for practical co-operation including aviation, tourism, and economic and cultural matters, and the first such meeting would begin in February. Señor Morán had reaffirmed the Spanish undertaking to take the early actions necessary to allow safe and effective air communications in the region and specific ideas for this were now under consideration.

On the issue of sovereignty, Sir Geoffrey said that Señor Morán had raised the question, as provided for by the Lisbon and Brussels statements, had outlined informally some ideas on the subject, and had stated that formal proposals would be made later. He had also emphasised the importance that Spain attached to the interests and feelings of the Gibraltar people when dealing with the issue. 'For my part, I made clear that the British Government's commitment to honour the freely and democratically expressed wishes of the Gibraltarian people, which is plainly set out in the preamble to the Gibraltar Constitution, stands unchanged.'

Sir Geoffrey pointed out that the Chief Minister of Gibraltar, Sir Joshua Hassan, had participated as a member of the British delegation and had subsequently described the Geneva meeting as positive and constructive and its result as good for Gibraltar.

Concluding, Sir Geoffrey said: 'The task ahead is to see that practical co-operation between Gibraltar and Spain develops in a way which will benefit both peoples and that Spain and the United Kingdom continue to manage our differences as befits friends and allies.'

[For further information, see COI reference paper *Gibraltar*, 176/84.]

British Aid: Research and Development Projects

British aid expenditure on over 500 research and development projects to assist developing countries[1] totalled £25·5 million in 1983-84 compared with £21·7 million in the preceding financial year.

The research and development programme, which gives priority to projects of direct relevance to the poorest people in the poorest countries of the developing world, seeks practical solutions to agricultural, animal husbandry, health, ecological, pest control and many other problems. To qualify for assistance, research projects have to satisfy two basic criteria: they must be directed toward gathering new knowledge and evolving new techniques directly related to the needs of developing countries; and the knowledge or techniques concerned should be capable of practical application within a reasonable period of time.

Expenditure on the research and development programme has four main components:

1 grants for research projects carried out on a contract basis by individuals or teams, usually based on universities or similar institutions (£5·7 million in 1983-84);

2 support for over 30 scientific establishments in Britain, including scientific units of the Overseas Development Administration, which give scientific and technical help to the developing countries (about £9·3 million);

[1]Work aided in this way is the subject of a report published by the ODA in 1984: *Report on Research and Development 1983-84*. Available free from the Press Office, Overseas Development Administration, Eland House, Stag Place, London SW1E 5DH.

3 support, provided through the Consultative Group on International Agricultural Research, for international agricultural research centres concerned with the problems of developing countries, and for other international research programmes (£5·7 million); and

4 assistance for research and development carried out as part of Britain's bilateral aid to particular countries (£4·8 million).

About 90 projects, nearly a fifth of all those supported, were devoted to agriculture, while another 65 were concerned with animal husbandry and livestock production, forestry and fisheries. Among the projects completed, in Britain and overseas, a long-term study of factors limiting arable crop production in a semi-arid environment was undertaken in Botswana, together with investigations into soil/crop/water relationships and appropriate tillage systems; the Kenya Agricultural and Forestry Research Organisation carried out a study of the field resistance to virus diseases of maize, groundnut, grain legumes and cassava in East Africa; and an animal-drawn tool-carrier for dry-land cultivation in India was developed and evaluated as one of a number of agricultural mechanisation projects.

Animal husbandry and livestock production projects included research into sheep and goat pox, rinderpest vaccination, contagious bovine pleuro-pneumonia, tick-borne diseases and trypanosomiasis. In forestry research, work aided included an intensive study of tropical pine gene resources, the establishment of silvicultural trials and a Forestry Research Information Centre in Nepal, and investigations into the cause of bamboo blight in Bangladesh and a possible cure or means of prevention. Research into fisheries included a study in Thailand of the re-use of human waste and cellulose agricultural residues for fish culture, and a seaweed cultivation project in Kiribati.

Research projects into medicine and health numbered 70, and were mainly concerned with tropical communicable diseases – notably schistosomiasis, onchocerciasis, malaria, leishmaniasis and leprosy – while others related to conditions such as sickle cell disease and protein energy malnutrition. Other projects reflected the importance of the 'community health' approach and, in particular, studies in both population control and the improvement of nutrition.

The bulk of the 47 economic and social research projects were concerned with agriculture and rural development, international trade and finance, economic policy and social studies; others related to industrial development, microcomputer programs, and appropriate information management systems for livestock and agricultural projects. Energy projects concentrated on the utilisation of non-fossil fuels and included research into the use of waste heat produced during coconut shell charcoal production, solar crop drying in Africa, the construction and testing of a hydraulically coupled wind-diesel electricity generator, and the development and design of solar-powered refrigerators in Thailand. Projects in the construction field included a study of the vulnerability of low-income housing in earthquake areas, research into the behaviour of piled foundations in difficult soils in India, with the aim of improving design and construction practices, and a project on cement production from rice husks.

Public Expenditure Plans

The Government's expenditure plans, contained in the White Paper on public expenditure published on 22 January,[1] show planned spending of £132,100 million in 1985-86, the same as in the previous year's White Paper. The plans imply that public spending will be held constant between 1983-84 and 1987-88 in real terms, amounting to a falling proportion of the nation's income. The main increases in planned spending are in the social security, health, defence, and law and order programmes.

The November 1984 autumn economic statement (see pp 446-9, 1984) gave the broad results for 1985-86 of the latest review of public spending. The White Paper sets out final spending plans for 1985-86 in more detail and also sets out plans for the following two years. The Financial Statement and Budget Report in March will give further (summary) projections of governmental receipts, spending and borrowing.

Public Spending Totals

The planned expenditure of £132,100 million in 1985-86 is the same as that given in the 1984 White Paper on public expenditure (see pp 84-8, 1984) and is also within the total set in the outline plans drawn up in the February 1983 White Paper (see pp 59-63, 1983). For both 1986-87 and 1987-88 the plans allow for cash increases of about 3·5 per cent (see Table 1). The increase in public spending in the four years up to 1987-88 is planned to be much the same as the expected rise in prices, implying that public spending will not rise in real terms over that period. Total cash spending in 1984-85 is now estimated to be 1·5 per cent higher than planned in the February 1984 White Paper, but this is expected to be followed by a reduction in spending once the exceptional impact of the coal strike is over (see p 446, 1984, and p 47).

Public expenditure is expected to represent 41 per cent of gross domestic product in 1985-86 (following a peak of 43·5 per cent in 1981-82), falling to 39·5 per cent by 1987-88. This would be the lowest level since 1979-80.

Analysis by Programme

Table 2 shows planned changes in the main programmes between 1983-84 and 1987-88. The average cash increase over the period is 18 per cent. Larger than average increases are planned for social security and health which already account for over 40 per cent of the total; expenditure on these will continue to grow in real terms. Significant increases are also planned in spending on defence and law and order, reflecting the Government's priorities. A number of programmes (including transport, overseas aid and other overseas services, and education and science) will increase by less than the average, while there will be reductions in spending on housing and in subsidies to agriculture, industry, energy, trade and employment.

Social Security

About half of social security expenditure planned for 1985-86 will be paid to people over retirement age. The total will increase by about 5·5 per cent on spending in 1984-85 and is planned to increase by 4·5 and 5 per cent respectively in the following two years. The rise in spending reflects greater numbers of people claiming benefits and the cost of raising benefits in line with prices. A few policy changes have been made to help contain spending on social security.

Health and Personal Social Services

In England over £600 million more (4·5 per cent) will be spent on the National Health Service in 1985-86 than in the previous year, taking the total to some £14,000 million. Over two-thirds of this will be spent on hospitals and community health services, and just over a fifth on the family practitioner services (doctors, dentists, pharmacists and opticians). Overall increases of 5·5 and 4·5 per cent are planned for the following two years.

Action is being taken to get better value for money spent, and there will be tighter controls on the profits companies make from sales of drugs.

Defence

The provision for 1985-86 of £18,060 million is in line with the target set by the North Atlantic Treaty Organisation of real annual increases in defence spending of 3 per cent. The cash provision for later years is to be kept under review, taking account of Britain's military commitments. The total for each year includes an addition for costs arising from the Falkland Islands.

Law, Order and Protective Services

Spending on law, order and protective services is planned to rise by 3 per cent in 1985-86, with further increases in later years. Most of the additional expenditure will be on the police and legal aid, together

[1] *The Government's Expenditure Plans 1985-86 to 1987-88.* HM Treasury. Vol I. Cmnd 9428-I. HMSO, £4·10. ISBN 0 10 194280 X. Vol II. Cmnd 9428-II. HMSO, £15. ISBN 0 10 194281 8.

Table 1
Public Expenditure by Programme (in cash terms)

£ million

	Estimated outturn 1984-85	1985-86	1986-87	1987-88
Defence	17,249	18,060	18,560	18,870
Overseas aid and other overseas services	2,503	2,631	2,540	2,770
Agriculture, fisheries, food and forestry	2,467	2,390	2,200	2,220
Industry, energy, trade and employment	8,250	5,818	4,810	4,320
Arts and libraries	762	732	810	830
Transport	5,754	5,524	5,880	5,870
Housing	4,265	3,371	3,670	3,810
Other environmental services	4,770	4,463	4,630	4,580
Law, order and protective services	5,975	6,176	6,470	6,630
Education and science	16,781	16,803	17,140	17,400
Health and personal social services	19,653	20,533	21,670	22,540
Social security	39,145	41,379	43,300	45,400
Miscellaneous expenditure	3,038	3,237	3,320	3,470
Local authority expenditure not allocated to programmes (England and Scotland)	—	675	—	—
Adjustments:				
Special sales of assets	−2,000	−2,500	−2,250	−2,250
Reserve	—	3,000	4,000	5,000
Allowance for shortfall	−500	—	—	—
Planning total (cash terms)	128,111	132,092	136,750	141,480
Percentage change on previous year	6·5	3·1	3·5	3·5

with further progress in building new prisons and courthouses.

Agriculture

Britain's spending on the Common Agricultural Policy and national price guarantees in 1985-86 will include extra provision for the grain expected to be bought into intervention following the large 1984 harvest. Savings have been made in the plans for all three years from 1985-86 on domestic support to agriculture, mainly on capital grants and arterial land drainage.

Housing

Funds in 1985-86 for investment in public sector housing will be supported by estimated receipts of £1,700 million – a direct result of the Government's policies for encouraging council house tenants to buy their own homes. Spending on home improvement grants is expected to be lower than in recent years. The Government intends to direct grants to those unable to afford necessary repairs and improvements.

Industry, Energy, Trade and Employment

Spending on these programmes is planned to be some 30 per cent less in 1985-86 than in 1984-85, with further reductions in the following two years. These decreases mainly reflect reduced needs for external finance on the part of the nationalised industries and savings in industrial support to the private sector.

Special Sales of Assets

Net proceeds from special sales of assets are estimated to be £2,500 million in 1985-86 and £2,250 million in each of the following two years. No breakdown of these figures is possible because receipts from such sales are dependent on timing and market conditions.

Reserve

The reserve provides a margin for uncertainties. The margin needed is greater for the later years of the planning period, and the normal practice is to reduce the size of the reserve as plans are progressively made firmer. The provisional figure of £3,750 million for 1985-86 set in the 1984 White Paper has now been reduced to £3,000 million. Sums of £4,000 million and £5,000 million have been set aside provisionally for the following two years.

Table 2
Percentage Change in Programmes between 1983-84 and 1987-88 (in cash terms)

	Per cent
Social security	25
Health and personal social services	23
Defence	22
Law, order and protective services	21
Scotland, Wales and Northern Ireland	13
Transport	10
Other	9
Overseas aid and other overseas services	6
Education and science	6
Agriculture, fisheries, food and forestry	−10
Housing	−19
Industry, energy, trade and employment	−40
Planning total	18

Table 3
Public Expenditure by Spending Authority

£ million

	Estimated outturn 1984-85	1985-86	1986-87	1987-88
Central government	92,399	96,459	99,800	103,170
Local authorities	34,140	33,079	34,160	34,780
Public corporations	4,072	2,055	1,030	780
Adjustments	−2,500	500	1,750	2,750
Planning total	128,111	132,092	136,750	141,480

Table 4
Public Expenditure by Spending Authority and Programme 1985-86*

£ million

	Central government	Local authorities	Other†
Defence	18,055	—	5
Overseas aid and other services	2,588	—	43
Agriculture, fisheries, food and forestry	1,902	134	14
Industry, energy, trade and employment	5,031	160	−442
Arts and libraries	272	364	—
Transport	1,197	2,040	1,297
Housing	1,313	1,044	−67
Other environmental services	328	2,873	250
Law, order and protective services	1,471	3,747	—
Education and science	2,363	11,235	—
Health and personal social services	14,060	2,408	23
Social security	37,172	2,933	—
Other public services	1,935	—	7
Common services	1,098	—	−5
Scotland	3,153	3,585	421
Wales	1,301	1,360	76
Northern Ireland	3,218	603	433
Local authority expenditure not allocated to programmes (England)	—	594	—
Totals	96,457	33,079	2,055

*The analysis by programmes differs from that in Table 1 which takes Britain as a whole as its basis; in this table certain expenditures in Scotland, Wales and Northern Ireland are treated separately.
†This includes the external finance of the nationalised industries, and contributions to public spending by public corporations.

Analysis by Spending Authority

Central government is responsible for about three-quarters of total public spending, with local authorities responsible for most of the remainder (see Tables 3 and 4).

Central Government

Central government spending is largely voted by Parliament through the annual Supply Estimates. The rest consists mainly of those social security payments which are made out of the National Insurance Fund. Social security accounts for about 40 per cent of government spending; large amounts are also allocated to defence and the health service.

Local Authorities

About half of local authority spending is financed by grants from central government. The rest is met from rates (local property taxes) and from borrowing. Education accounts for over 40 per cent of total spending.

Current spending by local authorities has continued to exceed the levels planned by the Government, resulting in a heavy burden on ratepayers. For 1985-86 the Government has increased the provision for this spending by £950 million. At the same time it has introduced grant penalties on local authorities that overspend, and in 1985-86 the imposition of limits on increases in rates ('rate capping') will operate in England for the first time (see p 52). The 18 authorities which are to be subject to rate capping account for about three-quarters of the expected over-spend in 1984-85.

Net provision for capital spending by local authorities will fall from £3,700 million in 1984-85 to £3,100 million in 1985-86. The reduction is partly due to a rise in capital receipts and partly compensates for an

over-spend of £400 million in 1984-85. Here again, the Government is improving the system of controls on spending.

Public Corporations

The largest part of this sector is the nationalised industries. Spending plans for these industries from 1985-86 onwards include London Regional Transport (see pp 23-4, 1984) but, because of actual or proposed privatisation, exclude British Telecom and British Airways.

The external finance of the nationalised industries is planned to be £1,300 million in 1985-86 compared with £1,900 million planned in 1984-85. The outturn for the earlier year is uncertain and depends on the outcome of the coalminers' strike. It is likely to be a little over £3,000 million. Nationalised industries' needs for external finance are planned to decline markedly in 1986-87 and 1987-88, as losses are reduced or rates of return on capital are improved. British Rail, the National Coal Board and London Regional Transport are expected to be the main recipients of external finance.

The borrowing of some public corporations other than nationalised industries is also included in the public expenditure total. Examples include the BBC, the Royal Mint and Her Majesty's Stationery Office.

Analysis by Economic Category

By economic category the planning total for 1985-86 is divided as follows: 38 per cent will take the form of cash payments to the private sector – mainly pensions and other social security benefits; 30 per cent is allocated for pay; 26 per cent will be spent on other goods and services from the private sector; and 4 per cent will go on subsidies. The priorities between, for example, capital and current spending, and procurement and pay costs vary greatly between different programmes.

Capital Expenditure

Planned capital spending by central and local government in 1985-86 is some £13,500 million, much the same as the estimated outturn in 1984-85. It is expected to rise to £14,000 million in 1987-88, implying a small reduction in real terms over that period.

Capital spending by public corporations (excluding those nationalised industries that have been or are being privatised) is expected to increase in 1985-86 and then to return broadly to the 1984-85 level.

Planned investment includes electrification of the east coast main railway line, the light railway for London's docklands and the fourth terminal at Heathrow airport, London.

Capital grants to the private sector in both 1983-84 and 1984-85 were much higher than planned. Grants in 1985-86 are expected to return to the 1982-83 level.

Pay and Manpower

For central government employees – mainly the Civil Service, the health service and the armed forces – the provision for pay reflects the assumption that rates of pay and allowances will increase by an average of 3 per cent from the appropriate settlement dates. If this figure is exceeded, the White Paper states, less money will be available for other purposes, whether investment, employment or other services.

Further reductions in the number of civil servants are planned as the Government promotes increased efficiency in the use of resources and value for money for the taxpayer. The total is to be brought down to 590,000 by April 1988; this would be a fall of 20 per cent since April 1979.

The manpower of Britain's armed forces (excluding locally engaged personnel) is expected to fall from 325,900 in April 1984 to 324,500 by April 1986. Figures beyond that date are subject to review.

The number of National Health Service employees in Great Britain rose by about 7 per cent between 1979 and 1983. The increase was mainly among those directly involved in the care of patients. The Government is determined to ensure that manpower in the health service is used to best effect. In England targets for reduced manpower were more than met in the year to March 1984, when the number of staff fell by 11,400.

About two-thirds of local authorities' relevant current expenditure is accounted for by manpower. In Great Britain the authorities have reduced their staff by 4 per cent in the five years to June 1984. The education service, which accounts for about half of local government staff, has experienced the largest reduction – nearly 8 per cent – but over a period when school rolls fell by nearly 11 per cent. Staff employed on law and order services increased by 7·5 per cent in number, in line with government priorities. The Government believes that there is significant scope for decreases in local authority manpower in the three years up to 1987-88.

Minimum Lending Rate and Exchange Rate

Short-term interest rates in the British financial markets were raised twice in January. The Bank of England led the first of these moves with the aim of signalling the Government's resolve to pursue its firm monetary policies and so arresting the fluctuation of the sterling exchange rate. At a meeting in Washington, Britain and four other major industrialised countries reaffirmed their willingness to intervene in foreign exchange markets to restore stability.

On 14 January, the Bank of England announced a Minimum Lending Rate (MLR) of 12 per cent which it would apply to any lending to the discount market on that day. This temporarily reintroduced a mechanism for influencing short-term interest rates which the Bank had ceased to employ in August 1981 (see pp 230-1, 1981). MLR's reintroduction signalled the Bank's concern that clearing bank base rates, which had risen from 9·5 per cent to 10·5 per cent on 11 January, were still too low. Shortly after the Bank's action, the clearing banks raised their rates to 12 per cent.

The index of sterling against other major currencies had been falling markedly since late December and on 14 January sterling opened at 70·6 on this index (1975 = 100) compared with an average of 75·1 in

the fourth quarter of 1984. Although sterling had fallen against all major currencies, by far the largest fall had been against the US dollar. The effect of the rise in base rates was to stabilise the pound at a somewhat higher level than that at which it had opened.

The Chancellor of the Exchequer, Mr Nigel Lawson, explained this action to the House of Commons in reply to questions on 15 January (*Hansard*, Vol 71, No 38, cols 23-8). He stated that he had taken the decision to set an MLR and to set it at 12 per cent on the advice of the Governor of the Bank of England. He had done so in order to demonstrate to the markets the Government's resolve to maintain sound monetary conditions, and take whatever steps were necessary to ensure continued success in the battle against inflation. He pointed out that when the Bank of England had ceased to post a continuous MLR in 1981 the option had been retained of announcing such a rate in some circumstances.

The Chancellor said that there had been three main factors which had led to the fall in sterling. One of these had been uncertainty about oil prices. [These have been drifting downwards in dollar terms, as oil production in recent months has exceeded demand.] Another factor was the sharp rise of the dollar against all other currencies. The third factor, he said, was doubt about the Government's resolve to persist with its counter-inflationary strategy in the light of continued pleas for still higher public borrowing and expenditure. The purpose of his action on interest rates was to give a clear signal of the Government's policy and resolve in this area. Interest rates would remain at this level for no longer than was necessary to secure proper monetary control, proper monetary conditions and a continuation of the Government's success against inflation. He said that there would be an immediate return to arrangements that did not involve the posting of a particular MLR.

On 17 and 18 January, the Chancellor and the Governor of the Bank of England, Mr Robin Leigh-Pemberton, attended a meeting in Washington of the finance ministers and central bank governors of the 'Group of Five' highly industrialised nations – France, the Federal Republic of Germany, Japan, the United States and Britain. The meeting was also attended by Monsieur J. de Larosière, the managing director of the International Monetary Fund. The meeting discussed the economic policies and prospects of the major industrial nations. After the meeting, a statement was issued in which the finance ministers and governors reaffirmed the commitment which had been made at the Williamsburg economic summit in 1983 (see pp 193-4, 1983) to undertake co-ordinated intervention in the foreign exchange markets as necessary, with a view to achieving greater exchange rate stability.

On 28 January, the clearing banks raised their base rates a further 2 per cent, a move which was promptly endorsed by the Bank of England. This was a response to renewed weakness of the pound on the foreign exchange markets. Sterling had opened at 70·4 on the index against major currencies, 0·2 points below its close on Friday 25 January. Speaking to the House of Commons Treasury and Civil Service Committee on the same day, the Chancellor reiterated the main points made in his statements to the House two weeks earlier. He said that the level of interest rates resulting from the new rise represented a degree of financial tightness which might not yet have been fully appreciated by the markets, but that the Government was not prepared to resist the upward pressure on interest rates if, by doing so, there was any risk of misapprehension of the Government's resolve to conquer inflation. He said that since the 'Group of Five' meeting in Washington, central banks had undertaken concerted action to demonstrate their concern and, in practical terms, to show the two-way risks involved in foreign exchange dealing. The authorities concerned stood ready to continue to work in co-operation.

Financial Services

The Government's proposals for the establishment of a new regulatory framework and associated institutional structure for the financial services industry are set out in a White Paper[1] published on 29 January. The main themes of the proposals are self-regulation within a statutory framework and proper accountability to Parliament which will provide for adequate investor protection and at the same time allow the financial services industry to operate efficiently and competitively. Legislation based on the proposals will be introduced by the Government during the 1985-86 parliamentary session.

In a statement to the House of Commons on the day of the White Paper's publication (*Hansard*, Vol 72, No 49, cols 157-65) the Secretary of State for Trade and Industry, Mr Norman Tebbit, said that modern technology and intense international competition were bringing about rapid changes in the financial services industry, and that the task of the Government was to create an environment in which the industry could respond effectively to these changes. The Government could best do this 'by allowing market forces to operate responsibly but without unnecessary constraints, in a way which promotes efficient and competitive business'. A prerequisite for the proper functioning of an internationally competitive industry was a clear regulatory framework within which practitioners and customers could deal with confidence and which safeguarded the interests of investors (see pp 318-20, 1984). The framework had to be sufficiently flexible to be able to adjust to changes in 'the shape of markets' and accommodate rather than stifle innovation; the White Paper proposals were designed to create such a framework. 'They will assist enforcement, deter fraud and malpractice, improve disclosure and lay down the principles on which business should be conducted.' Turning to the proposed institutional structure through which regulation would work, Mr Tebbit said that the crucial tasks of authorising the operation of investment businesses and maintaining high standards of business conduct among those so authorised could be discharged much more effectively by those closest to the market – practitioners and their customers – than by government.

[1] *Financial Services in the United Kingdom: A New Framework for Investor Protection*. Cmnd 9432. HMSO, £4·55. ISBN 0 10 194320 2.

Summing up, the Secretary of State said: 'The Government's proposals offer advantages to investors, to industry and commerce, and to the financial services industry itself. To the investor, our proposals offer more comprehensive protection against fraud or negligence, and better and fuller information on which to make investment decisions. To industry and commerce they offer the prospect of keener and more innovative financial services and therefore of finance at cheaper rates. To the financial services industry, they offer a system administered by those familiar with the markets and without unnecessary government involvement. The high standards which we seek to promote will be in the interests of all.'

THE PROPOSALS

The Regulatory Framework

The regulatory framework will be based on new and comprehensive definitions of 'investment' and 'investment business'. The former will include in addition to all types of securities, the whole range of financial and commodity futures and options contracts available, as well as certain other products. Because many life assurance policies have the characteristics of investments, the marketing of long-term life assurance contracts will be treated as far as possible in the same way as other similar 'pre-packaged' investments and be covered by the new legislation. Non-life insurance policies will not be regarded as investments by the legislation and the Department of Trade and Industry will continue to be responsible for the prudential supervision of insurance companies. Investment business will be defined to include, for example, any business that effects transactions in investments with or for others, manages investments (including unit trust schemes) or gives advice about them. Various types of business will be excluded, such as companies issuing their own shares, newspapers and investment clubs, and individuals (unless they propose to do business as sole traders).

Investment businesses will require authorisation in order to operate, and it will become a criminal offence to carry on investment business without such authorisation. The Secretary of State for Trade and Industry will have the power – which he will be allowed to delegate to regulatory bodies that appear to satisfy criteria stipulated by the legislation (see below) – to grant, vary, make subject to conditions, suspend or revoke such authorisation and to lay down requirements for the conduct of business by those authorised. These requirements will include the application of a 'fit and proper' test to all investment businesses, be they sole traders, partnerships or corporate entities. Rules for the conduct of business will be based on principles set out in the legislation which are to be derived largely from existing good market practice in Britain and the United States. The principles are as follows: safeguards against abuses arising from conflicts of interest (including an obligation to deal fairly, a duty of disclosure and a 'best execution' obligation whereby an investment business must obtain the best possible deal for its client); protection of clients' assets, whether money or documents of title; compensation for investors; adequate and reasonable investment and dealing recommendations, having regard to the nature of the investment and the circumstances of the client; disclosure of the terms of business to customers; the maintaining of proper records; and arrangements to ensure the orderly conduct of business.

Criteria for Delegation

The Secretary of State will be able to delegate his powers of authorisation to private-sector regulatory bodies which meet certain criteria. In particular, a body's proposed requirements will need to ensure that those authorised by it are and remain 'fit and proper' to carry on investment business; its proposed 'conduct of business' rules will need to afford adequate protection to investors and be consistent with basic principles set out in the legislation; and, its rules should not impose restrictions on competition greater than are justified for the adequate protection of investors.

Institutional Structure

The Government favours practitioner-based regulation within a statutory framework. The arrangements recommended by the Governor of the Bank of England (after consultation with leaders of City of London institutions – see pp 221-4, 1984) and by representatives of the life assurance and unit trust industries, and adopted in the White Paper, envisage two practitioner-based regulatory bodies – a 'securities and investments board' and a 'marketing of investments board' covering, in particular, life assurance and unit trusts. The boards, which will be financed by the financial services industry, are to be set up in the near future on a voluntary basis, so that the regulatory structure can be in place and operating by the time that the legislation providing the statutory framework is enacted. The legislation will not prevent delegation to a single body if this option were to be preferred by the industry and its clients. The boards will be empowered to recognise membership of existing self-regulatory organisations such as The Stock Exchange, the National Association of Security Dealers and Investment Managers, the Association of Futures Brokers and Dealers, and the Insurance Brokers Registration Council as providing the authorisation required for an investment business.

Accountability

The White Paper includes a number of proposals designed to combine the benefits of an effective practitioner-based system with accountability to the Government and Parliament. The chairmen and members of the boards will be appointed by, or with the agreement of, the Secretary of State for Trade and Industry, and board members will include users and other lay members as well as practitioners. The Secretary of State will be entitled to withdraw regulatory authority if it is considered that at any time a board ceases to conform to the criteria set out in the legislation. A board's rules and practices will also be subject to initial and continuing scrutiny for anti-competitive elements and where such elements are found, the Secretary of State will, after obtaining the advice of the Director General of Fair Trading, have the power to require their amendment or withdrawal, as will be the case with rules that conflict with Britain's international obligations. In addition, the boards will report annually to the Secretary of State, who will lay their reports before Parliament, and a new and independent tribunal will be set up (whose members will be appointed by the Secretary of State) to be the final arbitrator in disputes about

authorisation decisions or penalties for breach of the rules.

Other Proposals

Unit Trusts

The present controls on the unit trust industry will be relaxed to allow a greater variety of unit trusts to be made available to the general public and more speculative arrangements to be offered to authorised businesses, and by them to investors with appropriate financial resources and experience.

Investment Advice and the Marketing of Investments

Investment advisers, including those who market life assurance or units in unit trusts, will be subject to the 'conduct of business' principles. They will be obliged to disclose relevant information, including any material interest which they have in a recommendation (for example, commissions or other rewards to be received from other parties), thereby enabling investors to make more informed decisions. The new legislation will extend existing legal provisions outlawing misleading, false, deceptive or reckless statements or forecasts about investments so that conduct likely to defraud or deceive investors or potential investors also will become illegal.

Pensions

There will be a requirement to disclose comprehensive information about the way that pension scheme assets are invested. Any investment manager or adviser involved in the administration of pension schemes as a business will need authorisation. On the regulation of personal pension schemes, the Government intends that these should be subject to at least the same safeguards as other forms of investment.

Advertisements and Circulars

Only authorised investment businesses will have a statutory right to issue advertisements or circulars – to be defined to include all media – likely to lead to the sale or purchase of investments.

Public Issues and Take-overs

The legislation will provide that all public offers of securities, primary or secondary, including offers made on take-over bids, will be subject to the same statutory regime. Offers to the public will have to comply with requirements regarding their contents, unless specifically excepted; the minimum contents of prospectuses will be outlined in regulations made by the Secretary of State. The Government would consider providing statutory authority for the City Panel on Take-overs and Mergers if the securities market felt that this would be helpful.

Insider Dealing

The legislation will extend the provisions of the Competition Act 1980 dealing with 'insider dealing' to cover all securities, including options and futures contracts based on them, and also make enforcement more effective.

Enforcement

The regulatory boards and their recognised self-regulatory organisations will be responsible for enforcing their respective rules; the Department of Trade and Industry and the prosecution authorities will enforce the criminal law. There will be provision for civil law remedies for loss due to breach of the criminal law or of rules of business conduct. Finally, to facilitate the enforcement of these civil law rights, the Government proposes to grant powers to the Secretary of State (which he could delegate) to seek injunctions and 'disgorgement orders'[1] against businesses found to be in breach of the criminal law, the rules of the boards or those of recognised self-regulatory organisations.

Helping Markets Work Better

The Government's economic strategy has two main objectives. The first is to defeat inflation. The second is to improve the 'supply side' – that is, to remove the impediments which prevent people and firms responding quickly to changing conditions and market demands. This article, based on a paper published by the Treasury in the November-December issue of *Economic Progress Report*, summarises the actions which the Government has taken since 1979 to make the labour, capital and goods markets work better.

THE LABOUR MARKET

The Government has taken several steps to increase incentives and ensure that people are rewarded for developing their skills and taking on more responsibility. There have been changes in the tax system (see pp 411-13, 1984). Income tax has come down – the basic rate from 33 per cent to 30 per cent, the top rate from 83 per cent to 60 per cent. The points at which people start paying tax have gone up. The 'thresholds' have been raised 16 per cent more than inflation since 1978-79. The married man's allowance is the highest in real terms that it has been since 1945. Nearly a million fewer people pay tax than if thresholds had simply been indexed to prices. Companies have been encouraged to develop profit-sharing and share option schemes, which give their employees a more direct stake in companies' performance. There are now about 800 such schemes compared with about 30 in 1979. The Government has also abolished the earnings-related supplement to supplementary benefit and the benefit is now taxed. The result of all these changes is a bigger gap between what people can earn in work and what they can obtain when out of work, thus increasing the incentive for the unemployed to work.

Self-employment

The Government has encouraged self-employment, not only for its own sake, but also to create a basis from which larger enterprises can grow. The enterprise allowance scheme can pay a formerly unemployed person £40 a week for a year to help set up his or her own business. Self-employment has also been encouraged by tax changes, special advisory services and financing schemes to help small businesses. After many years of stability at or around a figure of 1·75

[1]These will require businesses to restore any losses suffered by victims of breaches.

million, the numbers in self-employment grew by some 400,000 between mid-1979 and mid-1983.

Obstacles to Mobility

In the past problems with pensions and housing have made it difficult for people to change jobs. Those who have done so, for instance, have usually ended up with lower occupational pensions than those who stay with one employer. The Government, therefore, has introduced legislation to give early leavers a better deal. A consultation paper on occupational pensions has been published (see p 239, 1984). People have also found it difficult and expensive to move house. There is now a tenant's exchange scheme and a National Mobility Office to help local authority, new town and housing association tenants move house. For owner-occupiers, the Government has cut the stamp duty payable on house purchase, and will introduce legislation to end the solicitors' monopoly on house conveyancing.

Obstacles to the Demand for Labour

For the employer, the cost of employing people is influenced by the tax system as well as wages. In the past, taxes have raised the relative cost of employing people rather than machines. The National Insurance surcharge, often called a tax on jobs, was abolished in the 1984 Budget (see pp 121-7, 1984). If it had continued at its 1979 level of 3·5 per cent, it would have cost private sector employers some £3,000 million in 1984-85. As a result of abolition, the total burden of National Insurance contributions and surcharge on employers will fall significantly in real terms in 1985-86. The Government has reduced other tax biases in favour of investing in plant and machinery, at the expense of jobs (see 'Business Taxation', p 45).

The Government is taking a close look at institutional arrangements which tend to make wages inflexible and so cost jobs. It is considering the position of wages councils, which set minimum wages in certain industries. In setting pay rates for the public services, less attention is now paid to 'comparability' with the private sector, and more to the ability to recruit and retain staff, and the effects of pay increases on costs. This is consistent with the move to planning public expenditure in cash. The 1946 Fair Wages Resolution has been rescinded and statutory provisions for setting pay solely on comparability grounds repealed. These arrangements prevented employers from offering jobs which would only have been viable at lower rates of pay.

If government regulations impose too great a cost on employers, the effect is similar to that of employees demanding too much pay. There is a balance to be struck. Those with jobs need proper rights and protection, but the extra costs of compliance for employers can mean fewer jobs in total. The Government has made several changes to the previous legislation. For example, a case for unfair dismissal can now be brought before a tribunal only by people who have been with the same employer for a year (two years in very small companies), instead of six months as before.

Industrial Relations

The Government believes that the labour market would be improved by greater stability in industrial relations, and has introduced reforms which will promote democracy within trade unions with this end in view (see pp 312-13, 1984). Secret ballots must be held before industrial action is taken if unions are to retain immunity against legal proceedings as well as for elections to the governing bodies of unions (from October 1985), and to approve closed shop agreements. Financial assistance has been provided for such ballots. Secondary picketing has been made subject to civil litigation and where closed shops exist, employees cannot unreasonably be denied union membership.

Industrial Training

The Government has three main objectives for vocational training: better preparation in schools and colleges for working life; modernisation of occupational training; and wider opportunities for adult training and retraining. Progress was described in a recent White Paper *Training for Jobs* (see pp 59-61, 1984). It includes a broader school curriculum, programmes of microelectronics education, closer links with employers, and 4-year secondary courses with a technical and vocational bias. For those who leave school or college (or are under 18 and cannot find a job) the youth training scheme offers a year of training and work experience. Some 350,000 young people joined in 1983-84, and another 300,000 have done so this year. More flexible apprenticeships, with less emphasis on time served, are being introduced in several industries. By 1985, training for all skilled occupations should be based on nationally agreed standards. New opportunities for adult training are opening up. The Manpower Services Commission's Open Tech initiative (see pp 269-71, 1982), developing 'distance learning' methods in vocational training (using video packages, correspondence courses, etc.), and proposals for an experimental training loans scheme, funded jointly by the Government and the banks, have been announced.

Special Employment Measures

Direct help is given to the unemployed through government schemes, particularly for the young and the long-term unemployed. Such schemes are being designed to encourage more realistic wage levels and more flexible working patterns. For example, the young workers scheme – introduced in 1982 – provides for £15 a week to be paid for a year to employers of 17-year-olds who earn £50 a week or less. The enterprise allowance scheme, introduced in August 1983, enables people who have been unemployed for over three months to set up in business without losing their unemployment benefit. The scheme is now helping 40,000 people. From April 1985 the number of new places will be increased from 1,000 to about 1,250 a week.

THE CAPITAL MARKET

Within financial markets, a whole range of legislative and other controls on activity has been abolished. Foreign exchange controls were abolished in 1979, giving Britain one of the most liberal systems in the world; dividend controls were ended in 1979, allowing companies to pursue the dividend policies they think right; hire purchase controls were abolished in 1982, so that hire purchase credit could compete on equal terms with bank loans and other sorts of finance; and controls on bank lending were withdrawn in 1980. The Government has made proposals to enable the

building societies to compete more freely, and the Trustee Savings Banks will be allowed to complete their transition to full Companies Act status. Radical changes are under way in the buying and selling of stocks and shares (see pp 221-4, 1984). Stockbrokers' minimum commissions are to be abolished and restrictions on Stock Exchange membership will be relaxed, with the aim of making competition more effective and providing better service to the public (see p 41).

The tax system has been made more even-handed as between different methods of finance and saving, and deposits with banks and building societies will be treated in the same way. The special tax relief on life assurance premiums has been abolished for new policies. Certain company bonds will enjoy the same exemption from capital gains tax as the Government's own securities, and changes in corporation tax will make the choice between different sorts of company finance more open. The Government wants to encourage wider share ownership. It has halved the rate of stamp duty on Stock Exchange transactions; abolished the income tax surcharge on investment income; provided income tax incentives for profit-sharing and share option schemes; and promoted a vigorous programme of privatisation. As a result of the recent sale of British Telecom shares, the number of small shareholders in the country has doubled.

Planning

Unnecessary planning controls have been removed and the planning system simplified and speeded up. The Government has raised the limits under which smaller developments such as factory extensions can proceed without planning permission. Public sector bodies, regional health authorities and nationalised industries as well as central government departments are being encouraged to make more land available for development.

Investment

The Government has removed physical controls on investment. The system of industrial development certificates was relaxed in 1979 and suspended altogether in 1982 and office development permits have been abolished. Industrial subsidies are now seen as the exception rather than the rule and where they exist they are becoming increasingly selective. Regional policy is also being made more selective (see pp 449-53, 1984). Changes in the rules will help avoid excessive emphasis on capital-intensive projects, and increase emphasis on job-creating projects. In 25 enterprise zones (see pp 120-1, 1980) market forces have been allowed to operate with a minimum of administrative delays, planning procedures have been drastically simplified and firms have been exempted from rates (local property taxes).

Small Firms

The weight of bureaucratic intervention on small firms has been reduced. Less detailed information has to be filed with the Registrar of Companies and fewer official forms have to be completed. A scrutiny team will take the process further. The loan guarantee scheme encourages lending to small firms by providing government guarantees to banks taking part (see p 23). Over half the loans made through the scheme have gone to new businesses. The business expansion scheme has improved the flow of investment finance to small firms.

Business Taxation

The 1984 Budget introduced major reforms in business taxation (see pp 121-3, 1984). The principal aim is to let investment decisions respond to market forces, with less distortion from the tax system. Reductions in the rate of corporation tax will improve the profitability after tax of investment projects which have a high rate of return before tax. Stamp duty on share transfers has been halved and capital gains tax on company securities held for over one year has been abolished. This will remove obstacles to investment in British companies, especially by small investors. The reduction and eventual abolition of capital allowances will remove a bias in favour of investment in equipment rather than new employment. Changes in capital transfer tax will also make it easier, where appropriate, for family businesses and farms to pass to younger hands.

MARKETS FOR OTHER GOODS AND SERVICES

One of the first acts of the Government in 1979 was to abolish pay and price controls. The policy has been carried forward by strengthening competition and making more of the economy subject to market forces.

Competition

In 1980 the Office of Fair Trading was given powers to investigate individual firms and refer anti-competitive practices to the Monopolies and Mergers Commission. The Commission has been given power to investigate all aspects of nationalised industries' efficiency, including costs, operations and working procedures (see pp 219-22, 1980). There is a regular rolling programme of reviews covering all the industries, and a number of reports have been published. One result is freer competition in the selling of electrical goods, now that electricity boards no longer subsidise their showrooms. Considerations of competition are now the dominant influence in determining whether a merger is referred to the Monopolies and Mergers Commission and, in general, market and commercial logic will be respected as long as competition is not impeded.

Competition has also been encouraged in the provision of a wide range of services where it has hitherto been restricted. The Government has ended the opticians' monopoly in the supply of spectacles and the restrictions on advertising by various professions and will end the solicitors' monopoly on conveyancing. It has ended the regulation of long-distance coach services – fares have come down 40 per cent and 700 new services have been introduced. Ways of deregulating domestic airline routes are under consideration. A report has just been published on shop opening hours, recommending the ending of restrictions, particularly as far as Sunday trading is concerned.

Privatisation

The discipline of competition is being strongly promoted by the privatisation programme (see pp 306-8, 1984). So far 12 major companies and a number of other concerns have been transferred from the public to the private sector, involving over 400,000 jobs. Many privatised companies, such as Cable and Wireless, have already demonstrated markedly improved commercial performance. Progress is also being made

in the complex process of breaking-up former monopolies. The most recent, and largest, transfer in the privatisation programme has been British Telecom (see pp 453-4, 1984). Other telecommunications systems have been licenced, such as Mercury Communications and some mobile radio companies; these will be able to interconnect with British Telecom. Substantial competition has been introduced to the market for telephone equipment. The generation of electricity by the private sector has been encouraged by the Energy Act 1983. Transfers to the private sector are part of a continuing programme, with British Airways due to be privatised in 1985 and British Shipbuilders' warship yards by March 1986. Other privatisation plans announced for the present Parliament include substantial parts of British Steel and British Leyland, Rolls-Royce and as many as possible of Britain's airports.

Contracting Out

Some services cannot be fully transferred to the private sector but would still benefit from competition and they are increasingly put out to competitive tender. A wide range of services in central government and the National Health Service has already been contracted out, leading to estimated annual savings of £23 million. Local authorities have to seek competitive tenders for some of their building and maintenance work, and other local authority services, such as refuse collection and street cleaning, would also benefit from competitive tendering. By October 1984 more than 20 contracts had been let by local authorities at an estimated annual saving of £7 million. The Government is examining options for encouraging this trend.

Industrial Development in Northern Ireland

The advantages to investors of Northern Ireland's efficient industries, skilled workforce, good industrial relations and excellent communications were emphasised by the Secretary of State for Northern Ireland in a speech at the opening of an exhibition, 'Northern Ireland – Building the Future', in the House of Commons on 28 January.

The Secretary of State for Northern Ireland, Mr Douglas Hurd, said that over the past 15 years Northern Ireland's image – particularly that portrayed in the media – had been one of a country torn and disrupted by deep political and religious differences. The reality was a country where most people went about their everyday lives in exactly the same way as in any other part of the British Isles. It was a country with well-developed and efficient industries, a motivated, flexible and highly skilled workforce, good industrial relations and an excellent infrastructure.

Northern Ireland had a sound foundation on which to build, dating back to the early days of the Industrial Revolution. The exhibition displayed some of the many and varied products which Northern Ireland companies manufactured for customers throughout the world. They ranged from commuter aircraft to crystal glass, from supertankers to shoes, from ceramic capacitors to Belleek china, and from fork-lift trucks to heart defibrillators.

The healthy industrial environment had attracted major companies from the United States, Europe and, recently, from the Far East.[1] These included the Ford Motor Company and General Motors, AVX [electronic components] and Hyster, Hughes Tool Company and Vantona Viyella, and many more. All these companies had chosen to come to Northern Ireland because it offered the prospect of long-term, efficient and profitable production. That they had chosen to remain, and in many cases grow, in Northern Ireland spoke for itself.

A cornerstone of Northern Ireland's future was its educational system, which had shown clearly its ability to adapt to meet the requirements of a modern industrial economy. The University of Ulster, for example, was the first university in the United Kingdom to establish a postgraduate specialism in industrial development. Working closely with the Industrial Development Board it would be aiming to produce a new group of executives specially trained to tackle the increasingly complex problems of industrial development.

The design and development achievements of Northern Ireland industry were not as well known as they deserved to be. Harland and Wolff had been pioneers in the design and construction of oil exploration rigs for deep-sea drilling. Short Brothers had built the first vertical take-off and landing jet aircraft. In the field of medical science Northern Ireland was a world leader in the provision of treatment for heart disease. The Queen's University of Belfast was at the forefront of technology in the design of high-performance motorcycle engines.

Northern Ireland had much more to offer than just industrial expertise and opportunity, concluded Mr Hurd. The growing tourist industry bore witness to the attraction of the Province for an increasing number of visitors from overseas. Its unspoilt landscape and its fine opportunities for sport made it a pleasant place to visit either on holiday or on business. [The number of staying visitors was 940,000 in 1984 compared with 857,000 in 1983 and 487,000 in 1974.]

Industrial Incentives

The incentives available to encourage new industrial investment are the most generous in the United Kingdom. A selective financial assistance scheme administered by the Industrial Development Board enables the Government to provide help on a discretionary basis in the form of grants and loans and, if appropriate, equity investment. Government factories may also be leased to companies offering good employment prospects. Areas where unemployment is highest qualify for the highest level of assistance. There are also tax concessions for new approved projects: a corporation tax relief grant of up to 80 per cent is available and

[1]Companies from Japan (Iwax Inc) and Hong Kong (Texlin Yarns) are to open factories for the manufacture of disposable cigarette lighters and for spinning linen yarn.

manufacturing premises pay no rates (local property taxes). Also payable is a 30 per cent grant for approved energy conservation projects, grants to help companies attract good management and an advisory service on production methods and processes. Altogether a total of 300 manufacturing projects have been assisted, accounting for 45 per cent of manufacturing employment in Northern Ireland. These include 175 new firms, of which 122 came from outside Northern Ireland.

Local Enterprise Development Unit

A record number of jobs was created in the year ended March 1984 – 3,658 compared with 2,550 in the previous year – by the Local Enterprise Development Unit, which promotes employment in companies in manufacturing, craft and service industries employing up to 50 people. The unit encourages the generation of ideas which may lead to new products or processes, and grants and loans are offered to firms and individuals meeting these objectives. Various advisory services are available, including small firm counselling by experienced business managers, and a programme of factory building is maintained.

Coal Industry Dispute

An early negotiated settlement to the 11-month-old dispute in the coal industry was called for by the Government in a House of Commons debate on 4 February.

Background to the Dispute

The dispute began following an announcement by the National Coal Board on 6 March 1984 that it planned to close a further 4 million tonnes of mining capacity to deal with problems of excess output. The National Union of Mineworkers (NUM) estimated that there would be a consequent loss of 20,000 jobs. Independent inquiries by select committees of the House of Commons and the House of Lords and by the Monopolies and Mergers Commission have all concluded that some reduction in capacity was necessary and have recognised the need to close the most uneconomic pits. The NUM, however, rejected and has continued to reject any pit closures on economic grounds.

In the 11 months since the dispute between the National Coal Board and the National Union of Mineworkers began there have been a number of attempts to reach a negotiated settlement, including talks held at the Advisory, Conciliation and Arbitration Service, during which the National Coal Board has made various concessions. The settlement still on offer from the Board was summarised by the Secretary of State for Energy, Mr Peter Walker, on 22 October 1984 in a statement to the House of Commons (*Hansard*, Vol 65, No 206, cols 446-7):

'. . . a wage increase from last November providing earnings way above average industrial earnings and greater than that gained by many groups of workers;

'an undertaking that any miner who wishes to continue working in the industry will be able to do so;

'exceptionally generous provisions for those who choose a course of early retirement when a pit needs to close;

'a capital investment programme more than double that of the rest of the European Community put together;

'a programme to secure an industry capable of obtaining expanding markets in the future;

'an amended colliery review procedure which includes all the provisions that have operated under Labour and Conservative governments for many years past but adds to it provision for an independent review body, whose advice will be given full weight before any decision is made;

'the creation of the new enterprise company, whereby for the first time the National Coal Board will be active in financing, advising and providing accommodation to new enterprises and businesses to benefit the mining communities.'

The offer has already been accepted by the other unions in the industry, including the National Association of Colliery Overmen, Deputies and Shot-firers (the pit deputies' union). However, the National Union of Mineworkers has continued to reject any formula that would permit any pit closures on economic grounds, and the last of the negotiations broke down on 31 October 1984, although there have recently been attempts to initiate new talks. Meanwhile, the number of miners on strike has declined, and by 4 February 81,000 NUM members were reporting for work, some 43 per cent of the total membership. In some areas there has been intensive picketing at pits, and the deployment of large numbers of police has sometimes been necessary to maintain order.

Although the rules of the National Union of Mineworkers require the union to ballot its members before calling a national strike, the union claims that the decision to take strike action in the present dispute has been made legally by its area councils, which have a mandate to resist pit closures with industrial action. (Ballots were held in a number of areas, and of the third of NUM members balloted, an overwhelming majority voted not to strike.) Litigation by members of the union challenging the legality of the strike has resulted in an order by the High Court for the sequestration (that is, seizure) of the union's funds, after the union failed to pay a fine for contempt of court following a judgment which declared the strike to be unlawful.

The Government's View

Speaking in the debate on the dispute in the House of Commons on 4 February (*Hansard*, Vol 72, No 53, cols 613-704), the Secretary of State for Energy, Mr Peter Walker, rejected suggestions that the dispute was one which the Government required or relished. The tragedy was, he said, that 11 months ago there could have been a settlement without any form of industrial action. The proposals which the National Coal Board sought to have discussed first at regional level were open to further negotiations and discussions, and included proposals for higher investment

and new marketing initiatives. The National Union of Mineworkers had 'decided to manipulate a national strike, not by a ballot and not . . . with the approval of the majority of the [NUM] executive'.

The basis of the strike, Mr Walker went on, was not a dispute about pay, or investment or the guarantee about no compulsory redundancies, but about the demand that there should be no pit closures on economic grounds. It was a proposal that no government or coal board could accept, and the 'Plan for Coal' (see pp 435-6, 1974, and 125-6, 1977) clearly envisaged that there would be closures of pits on economic grounds.

As a result of the dispute the mining industry had lost considerable markets; pit faces which had had a good future had been lost (through lack of maintenance) and £700 million of investment that could have gone into the industry in 1984 had not been able to because of the dispute. What was now on offer, Mr Walker said, 'is a programme for the coal industry that is better than anything that has been offered since nationalisation' (in 1947).

The enterprise company which had been established to assist mining communities that face pit closure represented the first time that the National Coal Board had created such an instrument. When it originally financed the company, it found that the number of potential inquiries was encouraging, and the initial capital was doubled to £10 million. At the time of making that announcement the Board made it clear that when further resources were required they would become available. Mr Walker gave the assurance that 'there will be no lack of financial and management support for the enterprise company to see that a much better, more positive approach to the problem is made as opposed to the absurd approach of saying that every uneconomic pit should not close'.

Opposition Views

Opening the debate the Labour Party spokesman for energy, Mr Stan Orme, said that it was evident that 'the Government do not want an acceptable settlement negotiated between the National Union of Mineworkers and the National Coal Board but that they want a victory over the NUM and especially over Mr Arthur Scargill' (president of the union). The Board's announcement of a cut in capacity had been a unilateral action which breached prior agreements with the trade unions and had provoked the strike; an independent analysis has shown that if the Board's policy were carried through, 70,000 jobs and 70 pits would go in less than five years. Offering decent redundancy payments could never be a substitute for guaranteeing employment in the present or the future.

For the Social Democratic Party, Mr Ian Wrigglesworth, spokesman on economic affairs and industry, said that the dispute was a personal tragedy for those directly involved and it was a tragedy for Britain because the economy had been adversely affected by the dispute. It was also a tragedy for the coal industry, because a potentially great industry had been substantially damaged by the dispute and it would take many years for it to recover. The Government had to bear some of the responsibility for the present difficulties, but this did not excuse what the National Union of Mineworkers and its leadership had been doing during the dispute.

Agriculture

Estimates of British agricultural production in 1984 are contained in the *Annual Review of Agriculture 1985*,[1] published in January. The review also examines the prospects for the industry.

The review says that gross output rose significantly, largely reflecting the increased output of most farm crops, notably cereals, oilseed rape and sugar beet. Farming income, which measures the return to farmers and their spouses including that on own capital invested, is forecast to rise at current prices by 22 per cent to £1,826 million, this following a fall of 16 per cent in 1983. Farm business income – the sum of farming income, the returns to non-principal partners and directors, and return on all capital invested – rose by 20 per cent to £2,780 million. This increase in the industry's aggregate income was the result of good growing conditions and the consequent high output of arable crops, especially cereals.

Farms

In 1984 there were some 239,000 farm holdings in Britain, a reduction of 2 per cent compared with 1979, with the decline being concentrated among the smaller full-time businesses. Some 90 per cent of total output came from businesses capable of providing work for at least one full-time man and these represented just under half the total number of holdings. About half of the total output came from large businesses of 1,000 standard man-days[2] or more, which accounted for 13 per cent of the total number of holdings. In Northern Ireland and Wales, output from small-scale farms is proportionately more significant than in other parts of Britain.

The average area (including rough grazing) of full-time businesses of 250 standard man-days or more is now 122 hectares[3] compared with about 113 hectares in 1979. Because of the decline in holdings and increased specialisation, the average size of enterprises has tended to increase: between 1979 and 1984, for instance, the number of holdings growing cereals fell by about 11 per cent, while the average size of cereals enterprises rose by 17 per cent. Over the same period the numbers of holdings producing potatoes and sugar beet declined by 18 and 15 per cent, respectively. There were, however, more than 11,000 oilseed rape enterprises in 1984 compared with about 3,500 in 1979.

In England, Scotland and Wales 69 per cent of holdings were wholly or mainly owner-occupied compared with 54 per cent in 1960-61, and the proportion of agricultural land farmed by its owner increased from 52 per cent in 1960-61 to 60 per cent in 1984. Virtually all farmers in Northern Ireland are owner-occupiers.

Farm Output

Gross output is forecast to rise by £751 million (6 per cent) to £12,349 million in 1984, compared with an increase of 4 per cent between 1982 and 1983. The

[1] *Annual Review of Agriculture 1985*. Cmnd 9423. HMSO. £5·65. ISBN 0 10 194230 3.

[2] A standard man-day represents 8 hours' productive work by an adult worker under average conditions.

[3] 1 hectare = 2·47 acres.

overall volume of output (as measured by the index of gross output at constant 1980 prices) is expected to rise from 105 to 112: this reflects an increase in sales of farm crops, particularly cereals and oilseed rape.

Productivity

Productivity, measured by the index of gross agricultural product at constant prices per full-time man equivalent,[1] increased on average by about 4 per cent annually during the ten years up to 1983. Although the index fell by 4 per cent in 1983, it is forecast to recover exceptionally in 1984 by showing an increase of 15 per cent: this arises from an increase in gross agricultural product at constant prices and a further small decrease in the total agricultural labour force, the number of whole-time workers falling by 3·5 per cent between 1983 and 1984 (this is similar to the average reduction of about 4 per cent in the ten years to 1983). The number of people engaged in agriculture in 1984 was nearly 700,000, of whom 325,000 were employees.

The review says that an alternative measure of productivity could be obtained by comparing changes in the level of output with changes in the total relevant inputs employed, such as labour, usage of capital items and materials. Measured in this way, preliminary calculations suggest a rise in productivity of around 2 per cent a year over the last decade and a higher than average increase in 1984 because of the rise in output.

Investment and Public Expenditure

Estimated value of new investment in fixed assets is expected to rise by 2 per cent in 1984 to £1,380 million. Expenditure on buildings and works is forecast to be £700 million, a rise of 9 per cent compared with the 1983 level, while that on plant, machinery and vehicles is expected to drop by 5 per cent. In aggregate, the volume of total gross fixed capital formation is forecast to be almost the same as in 1983.

Public expenditure in Britain on market regulation under the European Community's Common Agricultural Policy is estimated to be about £1,424 million in 1984-85, compared with some £1,374 million in 1983-84. This expenditure includes butter and school milk subsidies, beef and sheepmeat variable premium schemes, the premium schemes for the non-marketing of milk and the conversion of dairy herds, the suckler cow premium scheme, the annual premium on ewes, export refunds and the cost of purchasing commodities into intervention minus proceeds from sales.

Expenditure on price guarantees for wool and potatoes, capital grants, and support for agriculture in special areas is estimated to be £356 million in 1984-85, compared with £354 million in 1983-84.

Commodities

In 1984 cereals were grown on 4·05 million hectares, a net increase of 92,000 hectares over 1983. An increase of 270,000 hectares in the area sown to wheat more than offset a fall of some 178,000 hectares in the area of barley and other cereals. Yields of all cereals were at record levels, with average quality being higher than in 1983. Production of all cereals reached the record level of 26·5 million tonnes, over 4·5 million tonnes higher than the previous record in 1982 and some 5 million tonnes more than was harvested in 1983.

The area sown with oilseed rape in 1984 increased by 21 per cent to 269,000 hectares and average yields were higher than normal at 3·43 tonnes per hectare, mainly due to favourable weather conditions. Production is expected to be a record 923,000 tonnes.

Potato plantings in 1984 were some 9,000 hectares more than the target area of 190,000 hectares and forecast production is nearly 7·2 million tonnes.

The review forecasts that the harvested area of sugar beet will be about 196,000 hectares, the same as in 1983, and that the crop may yield 1·25 million tonnes of white sugar, the second highest on record.

The area devoted to horticulture in 1984 was about 218,000 hectares, compared with 224,000 hectares in 1983, a decrease of nearly 3 per cent.

Livestock

The June 1984 census showed a decline of 1·5 per cent in the total cattle breeding herd, while the dairy herd, which accounts for about 70 per cent of all breeding cows, fell by 2 per cent. Because of drought conditions yields of milk from dairy cows were reduced, and, following the introduction of production quotas in April (see pp 116-17, 1984), total milk production is forecast to be more than 6 per cent lower than in 1983. Provisional figures for 1984 show that there were 13,255,000 head of cattle and calves of which 1,354,000 were beef cows and 3,265,000 dairy cows.

The sheep breeding flock expanded by just under 2·5 per cent between June 1983 and June 1984 and wool production is forecast to be 51 million kilograms, compared with 52 million kilograms in 1983. Home-fed production of sheepmeat is estimated to rise by 10,000 tonnes to 307,000 tonnes. The estimated number of sheep and lambs was just over 35 million, 1 million more than in 1983.

Pigmeat production is expected to be 926,000 tonnes, compared with 988,000 tonnes in 1983. Because of the fall in the number of home-produced pigs, better pig prices and lower feedstuffs costs, profitability has improved and, as a result, an increase in the pig breeding herd is expected in 1985. Poultry-meat production is expected to total 825,000 tonnes in 1984, compared with 796,000 tonnes in 1983.

[1]This reflects changes in, for example, plant and animal breeding, and investment in the organisation of farming, as well as changes in the number of people employed and short-term changes in output caused by factors such as weather.

Space Developments

Recent developments in space activities include the approval at a ministerial meeting of the European Space Agency of a long-term European space plan covering the Agency's activities for the next ten years, the Government's decision to establish a British National Space Centre, and the signing of a memorandum of understanding on space collab-

oration between Britain and the People's Republic of China.

EUROPEAN SPACE AGENCY MEETING

The Council of the European Space Agency at a meeting at ministerial level in Rome on 30 and 31 January reviewed the development of Europe's space activities within the framework of a long-term plan. Britain was represented by the Minister of State for Industry and Information Technology, Mr Geoffrey Pattie. Information from the Council's resolution, from the communiqué issued after the meeting, and from a statement by Mr Pattie in the House of Commons on 4 February (*Hansard*, Vol 72, No 53, written answers, cols 395-6) is given below.

The ministers noted the impressive achievements made by Europe in the space field during the last 20 years, particularly after the impetus given to a European space programme by the 1973 European Space Conference (see pp 411-12, 1973). A large number of scientific and applications satellite programmes had been carried out; the Ariane launcher programme, which Britain joined in 1982, had given Europe an independent and competitive launch capability; and the construction and launch of the European space laboratory Spacelab (see p 440, 1983) had given Europe access to manned-flight technology.

Objectives

Reaffirming their commitment to maintain and develop independent European capabilities in space, ministers 'recognised that the present scope of the Agency's programmes had to be enlarged within a coherent, complete and balanced long-term European space plan to cope with the challenges of the next decade and beyond'. With this in mind they approved a number of objectives as guidelines for the Agency's activities. These are:

1 to enable the European scientific community, through an expansion of the scientific programme, to remain in the forefront of space research;

2 to develop further the potential of space in the areas of telecommunications and meteorology;

3 to prepare a substantial contribution of space and ground techniques to earth observation science and applications, and prepare for the establishment of operational systems;

4 to improve the competitiveness of European industry in areas of space applications;

5 to pave the way, through a substantial research programme on materials and life sciences, for practical application of microgravity in space;

6 to strengthen European space transport capacity;

7 to prepare separate European facilities to provide support for manned operations in space; and

8 to enhance international co-operation, particularly with the United States through a significant participation in an international space station.

Programmes

On the basis of these objectives, the ministers agreed to a balanced European space plan for the next decade. Major elements of the plan, which will require a substantial increase between 1985 and 1990 in the Agency's financial resources, include an 'in-orbit infrastructure programme', a space transport systems programme and programmes for earth observation, telecommunications, microgravity, space science and technology.

The ministers welcomed and accepted the United States' offer to participate in the space station programme, subject to the achievement of a satisfactory agreement. They agreed to initiate the Columbus programme (the detailed content of which would be defined during its preparatory stage) as a significant part of the international space station.

Ministers also agreed to initiate the development of an advanced heavy-lift capability launcher system (Ariane 5), equipped with a large cryogenic engine, with a view to its completion by 1995. They noted with interest France's decision to undertake the Hermes manned spaceplane programme and its proposal to associate its Agency partners interested in the programme in the detailed studies. They welcomed the proposal to incorporate in the Agency's optional programmes, in due course, additional elements of an autonomous European capability in automatic and manned orbital operations comprising in particular a manned space transport capability, a fully independent Columbus complex including polar orbiting platforms, an operational data relay system, and the development of the necessary technology with its in-orbit demonstration. Ministers also agreed to reinforce and expand the scientific programme; to pursue vigorously the Agency's activities in earth observation, space telecommunications and microgravity; to maintain its activities in space transport through an Ariane 3 and 4 support programme; and to complement its activities in space technology by an in-orbit technology demonstration programme.

British Involvement

Mr Pattie said that the meeting had agreed that Britain's industrial participation in the Columbus programme should include the lead in studies on 'free-flying, astronaut-tended platforms'. On this basis he had indicated that Britain would contribute 15 per cent to the £50 million cost of the two-year feasibility phase of the programme. With a view to possible later adoption by the Agency, Britain was invited to keep its partners informed on its further studies on a proposal for an advanced horizontal take-off and landing space vehicle (HOTOL), a British Aerospace and Rolls-Royce project for a vehicle designed to use an engine acting as a conventional jet engine and as a rocket motor.

BRITISH NATIONAL SPACE CENTRE

The Government's decision to establish a British National Space Centre, to improve the development of space technology in Britain and to co-ordinate policy more effectively, was announced by the Minister of State for Industry and Information Technology on 29 January. Mr Pattie said that the Government had been looking at British space policy in the light of the proposals for the European Space Agency's long-term programme and the invitation from the United States to participate in its manned space station project. In establishing the Centre the Government had

recognised the need for a longer-term space policy. Hitherto responsibility for space policy had been divided among government departments (including the Department of Trade and Industry, the Department of Education and Science – through the Science and Engineering Research Council – and the Ministry of Defence), academic institutions and industry, and there was 'clearly a need for a much sharper focus for Britain's space effort'. It was also clear that the range of applications would be likely to multiply, especially in earth observation and remote sensing (see p 322, 1984). Detailed arrangements for the Centre were being worked out, but it would probably be located at the Royal Aircraft Establishment, Farnborough, where there was already a successful joint technology programme funded by the Department of Trade and Industry and the Ministry of Defence.

COLLABORATION WITH CHINA

A memorandum of understanding on space collaboration between Britain and the People's Republic of China was signed in London on 28 January by Mr Pattie and by China's first deputy Minister of Aeronautics, Mr Li Xue. The memorandum will enable regular exchanges of space scientists to take place and pave the way for co-operation in the latest satellite technology developments. It represents a significant advance in Britain's relations with the Chinese space authorities, which are rapidly developing their own independent satellites and launcher systems.

Family Expenditure Survey

Average weekly household expenditure in 1983 was £142·59, over 6 per cent higher than in 1982, according to the *Family Expenditure Survey 1983*,[1] published on 22 January.

The report is the latest in an annual series which has been in continuous operation since 1957, following an earlier survey in 1953-54, covering the expenditure of private households. It is based on a sample of 6,973 households from the whole of Britain. The survey is spread over the year and provides comprehensive information about incomes and expenditure, including regular payments such as rent and rates and details of the households' day-to-day expenditure for 14 consecutive days.

Average weekly expenditure per person in 1983 was £53·65, but there were wide variations between households. The 20 per cent of households with the lowest incomes spent £41·51 per person, three-quarters of the average for all households, while the 20 per cent with the highest incomes spent £74·59 per person, about one-third more than the average. The higher-income households were generally much bigger, with on average more than twice as many members as the lowest 20 per cent. Households with one or two retired people mainly dependent on state pensions reported average spending of £45·64 and £71·89 per week, respectively. Households with one adult and one and more than one child spent respectively £82·20 and £105·64 per week. A couple with two children spent a weekly average of £178·27. At the top of the expenditure scale were larger households comprising at least four adults with at least one child (average size 6·1 people), who spent £263·96 per week.

Average weekly expenditure in households where the head was an employee in a professional, technical, administrative or managerial occupation was £208·30 in 1983, compared with £153·36 where the head was employed in a manual occupation. Where the head of household was an employee out of a job the average weekly household expenditure was £126·32 compared with £175·33 for households with employee heads currently employed. Spending by the former group as a percentage of spending by the latter group fell from 74 per cent to 72 per cent between 1982 and 1983.

Household spending varied in different parts of the country. For the two-year period 1982-83 average weekly expenditure per household ranged from £119 in the Northern region (14 per cent less than the national average of £138·12) to £155·38 in Greater London and £156·30 in the rest of the South East (13 per cent above the national average). Expenditure on housing was comparatively low in Northern Ireland and Scotland, and high in the South East. Spending on fuel, food, and clothing and footwear in Northern Ireland was higher than elsewhere, though to some extent this reflects the above average household size. Expenditure on transport and vehicles was highest in the South East (particularly outside Greater London), but comparatively low in the Northern region and in Yorkshire and Humberside, while spending on services was highest in the South East and lowest in the Northern region and Wales.

Just over a fifth of total household expenditure in 1983 was on food, although there has been a fairly continuous fall in this proportion since 1953-54, when it was about a third. Fuel, light and power accounted for a slightly higher proportion of the total in 1983 (16·5 per cent) than in 1982 (16·2 per cent), while clothing and footwear accounted for a slightly smaller proportion (7 per cent compared with 7·2 per cent).

In 1983 there was an increase in the distribution of telephones, which were found in 77 per cent of households, compared with 76 per cent in 1982 and 67 per cent in 1979. There was also an increase in central heating, which was found in 64 per cent of households in 1983, compared with 63 per cent in 1982 and 55 per cent in 1979. The proportion of households with the use of a car or van showed a small increase from 61 per cent in 1982 to 62 per cent in 1983, while in the same period the proportion with two or more cars increased from 15 to 17 per cent. The availability of durable goods is also analysed by household income and tenure for 1983 and by region for the two-year period 1982-83. In the Northern region some 49 per cent of all households had the use of a car or van in 1982-83, while in the South East (excluding Greater London) the figure was 74 per cent. The availability of refrigerators was lower in Northern Ireland than elsewhere, although the Northern Ireland figure of 91 per cent showed an increase from 89 per cent in 1981-82 and 86 per cent in 1980-81.

[1] *Family Expenditure Survey 1983*. HMSO. £14·25. ISBN 0 11 361245 1.

Shorter Notes

RATES

The Government has announced the 1985-86 rate support grant settlements[1] for England, Wales and Scotland.

Announcing the settlement for England, the Secretary of State for the Environment, Mr Patrick Jenkin, said that, under the powers made available by the Rates Act 1984 (see p 56, 1984), he was for the first time imposing limits on the level of rates that could be set by local authorities which had been the worst overspenders in recent years. There were 18 authorities which had been selected for this 'rate-capping' out of a total of 456 local authorities in England. Mr Jenkin also confirmed expenditure targets for 1985-86 which have been circulated to the local authorities. The effect of these is to allow most low-spending authorities an increase in spending in line with the Government's best estimate of inflation. At the same time, in order to reinforce the effects of the targets, he announced the 'rate of holdback' which he would be prepared to use to abate the grant of authorities whose expenditure exceeded the target figure. The 'holdback tariff' would be set at a rate of 7p in the pound for the first percentage point of overspend, 8p for the second, and 9p for every point thereafter. Acknowledging that the rates were stringent, Mr Jenkin said he wanted to ensure that there was a strong incentive that the targets should be met.

In England, a planned level for local authority expenditure of £24,161 million (of which current expenditure represents £21,314 million) has been taken into account in determining the rate support grant. Aggregate Exchequer grant will therefore total £11,764 million (48·7 per cent of expenditure), of which £2,576 million is in the form of specific grant (for the police service, for example) or supplementary grant for transport or the national parks. There will therefore be £9,188 million available for rate support grant. Nearly £700 million of this will be domestic rate relief grant (which modifies the effect of rates on domestic, as opposed to commercial and industrial, premises) so that £8,489 million will be available for distribution as block grant.

In Wales, a planned level for local authority expenditure of £1,514 million (of which £1,309 million is current expenditure) has been taken into consideration for fixing grant. Aggregate Exchequer grant will be £1,014 million (67 per cent of the total) of which specific and supplementary grants will amount to £177·5 million. Rate support grant will total £836·7 million and the total available for distribution as block grant (after allowing for domestic rate relief grant of £25·5 million) will be £811·2 million.

In Scotland, planned relevant expenditure is £3,399 million and the aggregate Exchequer grant amounts to £1,924 million, or 57 per cent. Specific grants amount to £232 million. As Scotland does not have supplementary grants, the rate support grant will total £1,692 million.

[1]Rate support is a system whereby central government supplements the finances for current expenditure of local authorities (about one-third of which is derived from rates – local property taxes) so that they can provide services for which they are responsible to similar standards while reducing disparities in their rates.

Sources: *Hansard*, Vol 69, No 26, cols 910-12; No 27, cols 1054-6; No 28, cols 1218-21. *Local Government Finance: The Rate Support Grant Report (England) 1985-86*. Departments of the Environment and Transport. HMSO, £6·10. ISBN 0 10 208385 1. Welsh Office press notice, 12.12.84. Scottish Office press notice, 14.12.84.

EUROPEAN REGIONAL DEVELOPMENT FUND

Assisted areas in Britain will receive £226 million in grants from the European Regional Development Fund (see pp 23-4), the European Commission announced on 24 January. This latest figure is Britain's final allocation from the Fund for 1984 and brings the total amount contributed to British projects by the Fund since its inception in 1975 to £1,621 million. The £226 million is to be spent on 91 industrial and 555 infrastructural projects in the assisted areas (see pp 449-53, 1984) in England (which will be allotted £131 million), Scotland (£63 million), Wales (£27 million) and Northern Ireland (£5 million). Among the infrastructural projects to attract grants are projects to improve roads, water and electricity supplies, drainage and sewerage facilities, harbours and ferry vessels, and airport and tourist facilities.

Sources: Department of Trade and Industry press notice, 24.1.85; Department of the Environment press notice, 24.1.85; Welsh Office press notice, 22.1.85; Scottish Office press notice, 23.1.85; Northern Ireland Information Service press notice, 24.1.85.

SMALL FIRMS POLICY

The principal achievements of the Government's small firms policy in 1984, together with the main objectives of the policy for 1985, were outlined by the Parliamentary Under-Secretary of State for Industry, Mr David Trippier, in a House of Commons written answer on 16 January. During 1984 the Government had continued to foster conditions favouring the setting-up and growth of small businesses, the total number of which had increased by more than 110,000 between 1980 and 1983. The policy's achievements had included:

1 the continuing development of the Small Firms Service (see p 382, 1984), which had handled 279,000 inquiries and 23,000 counselling cases last year;

2 the growth of local enterprise agencies (see p 382, 1984), which now numbered 233 with another 35 being formed;

3 the staging of the first local enterprise week in June 1984 to encourage those offering help to the small business sector to promote their work at the local level;

4 the extending of the loan guarantee scheme (see p 23), and of the enterprise allowance scheme (see p 446, 1984) which was operated by the Manpower

Services Commission (MSC) and which had helped 42,000 unemployed people to start new businesses in 1984;

5 the provision of incentives to equity investors in small companies through the business expansion scheme (see pp 456-7, 1984), under which more than 10,000 people had invested at least £75 million in 400 small firms in 1983-84; and

6 the presentation of a nationwide series of seminars for professional advisers of small businesses, designed to increase awareness of government schemes of assistance and of the problems of small firms' financing.

Mr Trippier said that in 1985 the Government would continue to stimulate the growth of small businesses and self-employment and of a better understanding of the role of small firms in the community. In particular, it intended to:

1 review the impact and effectiveness of the loan guarantee scheme and encourage greater usage of the business expansion scheme so as to improve the flow of finance to small companies;

2 sponsor seminars for professional advisers of small businesses on business planning for small firms;

3 encourage co-operation between the various small firms advisory agencies, stimulate the growth of local enterprise agencies and of the contribution of the private sector, and promote the facilities of the Small Firms Service and complete the computerisation of its inquiry service;

4 hold a further local enterprise week in May to publicise the wide range of locally based assistance which is available to small firms; and

5 continue to remedy disadvantages suffered by small businesses arising directly from their size.

The Department of Trade and Industry would also work with the MSC in developing appropriate and accessible training facilities for those starting and running small firms, and in May would launch a video film encouraging owner-managers of small firms to undertake relevant management training. In addition, both the work of the Government's enterprise unit (headed by the Minister without Portfolio, Lord Young – see p 344, 1984), which has a bearing on small firms policy, and the scrutiny report on administrative and legislative burdens on small businesses (being prepared under the guidance of the Prime Minister's efficiency unit) would be considered during 1985.

Source: *Hansard*, Vol 71, No 40, written answers, col 126.

BRITE PROJECT

A meeting of the Council of Research Ministers of the European Community on 19 December 1984 agreed on a package of eight research programmes to be partially funded by the Community. On 23 January 1985, the Department of Trade and Industry announced details of the first of these, a programme of Basic Research in Industrial Technology (BRITE).

BRITE is intended to improve the technological base of the more traditional industries in the Community by encouraging the introduction of advanced technology. The programme, with a budget of 125 million ECUs[1] (£78 million) for the years 1985 to 1988, will support cost-sharing projects involving industrial companies, universities and research organisations, to which the Community will contribute up to 50 per cent of approved costs. The projects will be in the following areas: reliability, wear and deterioration; laser technology and powder metallurgy; joining techniques; CAD/CAM (computer-aided design and manufacturing) and mathematical modelling; polymers, composites and other new materials; membrane science and technology; catalysis and particle technology; and flexible materials.

Certain minimum criteria will have to be met by projects selected for support. These will have to involve participation by one or more industrial companies and collaboration with partner organisations in other Community states; the 50 per cent of funding not supplied by the Community will have to be provided by the industrial participant(s). The projects will have to be of a high technical quality and research work must be of a pre-competitive nature and must not duplicate work already in progress. In addition, the projects will have to be of a substantial size – the average is expected to be around 1 million ECUs (£625,000).

Source: Department of Trade and Industry press notice, 23.1.85.

ELECTRONIC PAYMENT SYSTEM

The English and Scottish clearing banks, together with their credit card companies, have decided to establish a single nationwide 'electronic funds transfer at the point of sale' (EFT-POS) system for the retail market. The decision was taken with the agreement of the Retail Consortium, which represents most retailers in Britain, and after consultations with other retail interests, suppliers and consumer bodies. The system will use magnetically striped cards and terminals installed in retail premises to transfer funds directly from cardholders' bank or other accounts to the accounts of retailers. (A few small-scale EFT-POS schemes are already in operation: the Clydesdale Bank, for example, is running a scheme in conjunction with a hypermarket and a number of petrol stations in Scotland.) The key features of the proposed service are said to be: speed and simplicity of payment transactions; reduction of cash- and cheque-handling processes; provision of guaranteed funds for all authorised payments; automation of credit card acceptance and processing, obviating the need for credit card vouchers; and reduction of cheque and credit card fraud.

Announcing the banks' decision on 31 January, the chairman of their EFT-POS policy committee, Mr David Robinson, said that in developing the system and network it was desirable that the right balance should be struck between co-operation and competition so that benefits would be shared among all participants. (A study to identify the overall costs and bene-

[1]The European Currency Unit (ECU) is used in the European Community's budgetary transactions and is a weighted average of Community currencies, the value of which is calculated on a daily basis against all major world currencies.

fits of the system for customers, retailers, banks and other card-issuers will be commissioned by the banks and retailers.) The system will be accessible to all card-issuers provided that their cards conform to agreed technical standards and operational and financial arrangements. It will be designed to give maximum flexibility for individual banks and card-issuers to compete in supplying services to retailers and card-holders.

Detailed work will now begin on the systems and equipment to be used; British Telecom and International Business Machines United Kingdom Limited are to satisfy initial network needs. The technical standards required will be published and a wide range of manufacturers and suppliers will have the opportunity to provide terminals and other equipment.

The banks will establish a company to assume responsibility for the development and eventual management of the system. It is expected that a preliminary scheme could start within two years, with first operations possibly earlier, and that existing credit cards will feature prominently in the early stages of the development. The banks and retailers foresee considerable consultation taking place with consumer representatives, financial institutions, and users of payment services other than retailers, to ensure maximum support for the proposed system.

Source: Banking Information Service and the Retail Consortium press notice, 31.1.85.

BRITISH AEROSPACE

The Government is to sell its residual shareholding in British Aerospace (BAe – see p 139, 1984), the Secretary of State for Trade and Industry, Mr Norman Tebbit, announced in the House of Commons on 15 January. Mr Tebbit said that the sale was in line with the Government's policy of selling minority residual shareholdings in privatised companies as the circumstances of the companies, the prospectus undertakings and market conditions permitted. The Government would, subject to satisfactory market conditions, offer all of its shares in BAe (representing over 48 per cent of the company's issued share capital) for sale in the spring or early summer of 1985. The company had been operating successfully in the private sector since 1981, when it had become the first nationalised enterprise to be returned to the private sector by the present Government (see p 14, 1981).

BAe had agreed to recommend to its other shareholders, prior to the sale, a resolution providing for the Government to retain a special share in the company which would ensure that, without government consent, no change could be made to BAe's policy of restricting foreign ownership of shares and requiring the directors to be British nationals. In addition, the Government would have the right to nominate a director to the company. With the shareholders' approval, the sale would take the form of a simultaneous offering of the Government's existing shares and new shares to be issued by BAe. Company employees would have priority rights of application with regard to the Government's shareholding, while the maximum number of shares to be allocated to an individual applicant, or group of applicants acting in unison, would be limited to 10 per cent of the shares to be offered. The relationship between BAe and its partners in the European consortium Airbus Industrie and other overseas enterprises would remain unchanged after the sale, and the Government would continue to give BAe the same support that it gave to all British companies in their efforts to export and prosper.

Source: *Hansard*, Vol 71, No 39, cols 183-9.

CELLULAR RADIO

Britain's first two public cellular radio-telephone systems began operation in January 1985. Cellular radio operates by dividing the country into a network of 'cells', each served by a base station transmitter. Each cell is allocated a set of radio frequencies to avoid interference; frequencies are re-usable in non-adjacent cells. As a radio-telephone user moves from one cell to another, the system's computer switches calls automatically from one base to the next, so allowing uninterrupted communication. The system is efficient in its use of frequencies and can accommodate a much higher number of users than can conventional mobile radio-telephone systems.

The Government's decision to license two competing national cellular radio-telephone services was taken in 1982 (see p 39, 1983). The services in operation are 'Cellnet', operated by Telecom Securicor Cellular Radio Ltd (a joint venture between British Telecom and Securicor), and 'Vodafone', run by Racal-Vodafone Ltd (part of the Racal Electronics group). Both systems are expanding rapidly. Cellnet will be available in all major cities by 1986 and in areas covering 90 per cent of the population of Britain by 1990. Racal Electronics is investing £200 million in the Vodafone network. Initially the service is available in most of the area bounded by the M25 orbital motorway around London, but it will be extended to cover all major cities and towns (some 80 per cent of the population) in Britain by mid-1986.

Sources: British Telecom and Racal-Vodafone information packs, January 1985.

SOCIAL AND CULTURAL AFFAIRS

Microcomputers in Schools

Secondary schools in England, Wales and Northern Ireland now have more than one microcomputer for every 100 pupils and there is an average of about nine microcomputers in each school, according to a survey[1] carried out for the Government in mid-1984 by the British Broadcasting Corporation (BBC).

According to the survey almost all schools (99 per cent) had a microcomputer, and the average number of machines was 8·7 per school. Almost all (91 per cent) had printers and just over a half had high-resolution graphics. A quarter of schools had some form of network for electronic communication within the school but only a few had access to any external network.

Almost two-thirds of schools had developed courses based on their computers, mainly for computer awareness and appreciation. Science and mathematics departments were the heaviest computer users in the sample, 65 per cent of science classes and 56 per cent of mathematics classes making use of them; computer studies, geography and remedial classes were the next heaviest users. Young pupils were more likely to have had direct experience of using computers, probably because a proportion of older pupils were already specialising in subjects where the computer was less heavily used.

About two-thirds of the schools sampled had a member of staff with responsibility for computing across the curriculum and in just under two-thirds staff who had attended training courses had subsequently trained their colleagues. Some 85 per cent of schools planned to buy more hardware in the next two years, and 93 per cent more software; one of the main priorities was to introduce or extend electronic networking systems. Computer clubs existed in 82 per cent of schools sampled.

Welcoming the findings of the survey, Mr Robert Dunn, Parliamentary Under-Secretary of State at the Department of Education and Science, said on 23 January that the widespread availability of microcomputers said much for the commitment of schools, local education authorities and parent-teacher associations, who, to ensure that their pupils would be equipped to contribute to the nation's future economic well-being, were multiplying by many times what they had received from central government sources. Although there was much equipment already, all schools wanted more; many schools were keen to acquire information-handling software, like word-processing and database packages, and general computer-assisted-learning programs were also attracting a great deal of attention. The microelectronics education programme (see p 143, 1984) had done much to promote and stimulate the use of such material and had spent around £5 million over the last four years on educational software development.

The use of computers in Scottish schools is being supported by the separate Scottish microelectronics development programme.

For further information see COI reference paper *Microelectronics in Britain's Schools*, No 239/85.]

[1] *Microcomputers in Secondary Schools: A Survey of England, Wales and Northern Ireland Secondary Schools*. The survey, together with a similar survey of primary schools, will be published by BBC Publications later in the year. A summary of the survey's findings is contained in the Department of Education and Science press release No 14/85, 23.1.85.

Corporal Punishment in Schools

The Education (Corporal Punishment) Bill, which would give parents the right to exempt their children from corporal punishment at school, was given a second reading in the House of Commons on 28 January.

The Bill would enable Britain to comply with the judgment of the European Court of Human Rights in February 1982 that the views of parents who wish their children to be exempted from such punishment amount to a philosophical conviction which must be respected under the European Convention of Human Rights. The Court's ruling did not require the abolition of such punishment, and the Government is opposed to compulsory abolition because many parents and teachers favour its retention.

Schools covered by the legislation would have to consult parents on their views and then keep a register of the names of those pupils under the age of 18 whose parents wish them to continue to receive corporal punishment.

In Scotland the Bill would exempt pupils aged 18 and over from corporal punishment; the parents of pupils under 16 would be given the option of exempt-

ing their children, and young persons (that is, those aged 16 and 17) would themselves decide whether they should be exempted (under Scottish law young persons are treated as independent of their parents at this age). It is expected that the proposed legislation will affect no more than ten per cent of the population in publicly maintained schools in Scotland, because of the progress already made towards the voluntary elimination of corporal punishment in Scottish schools.

The Bill, which was drawn up following consideration of comments received in response to a consultative document issued by the Government in July 1983 (see p 281, 1983), was given a second reading by 290 votes to 171, a government majority of 119 (*Hansard*, Vol 72, No 48, cols 38-118).

DOCUMENTATION

General

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